Nos. 14-1513 & 14-1520

In the Supreme Court of the United States

HALO ELECTRONICS, INC., PETITIONER

v.

PULSE ELECTRONICS, INC., ET AL.

STRYKER CORPORATION, ET AL., PETITIONERS

v.

ZIMMER, INC., ET AL.

ON WRITS OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR INTEL CORP., HEWLETT PACKARD ENTERPRISE CO., AND MEDTRONIC PLC AS AMICI CURIAE SUPPORTING RESPONDENTS

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INTEREST OF AMICI CURIAE

Amicus Intel Corp. is a world leader in designing and manufacturing computer, communication, and other electronic components.* With more than 20,000 patents,

* Pursuant to Rule 37.6, amici curiae affirm that no counsel for a party authored this brief in whole or in part and that no person other than amici or their counsel has made any monetary contributions

it has one of the Nation's largest patent portfolios and is among the top recipients of patents each year. As such, it is a strong supporter of the patent system. At the same time, Intel is also a frequent target of patent-infringement lawsuits, many of which involve patent claims of highly questionable merit. Intel therefore intimately understands the practical need to balance vigorous protection of legitimate patents with suitably high standards for awarding litigation incentives such as enhanced damages.

Amicus Hewlett Packard Enterprise Co. (HPE), one of the successor entities to the Hewlett-Packard Company, is a leading global provider of the cutting-edge technology solutions customers need to optimize their traditional information technology. HPE has an industry-leading position in servers, storage, networking, converged systems, software and services, and customized financing solutions. As such, HPE is an innovator company with an acute interest in a strong patent system and is directly affected by the high costs of patent litigation.

Amicus Medtronic PLC is the world's largest medical technology company. With over 46,000 employees, Medtronic has transformed health care worldwide, improving outcomes, expanding access, and enhancing value. Medtronic is a leading innovator in the field and capitalizes on the intellectual property it generates. Medtronic files hundreds of original patent applications annually in the United States.

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intended to fund the preparation or submission of this brief. The parties have consented to the filing of this brief, and copies of their letters of consent are on file with the Clerk's Office.

The Court's decision in these cases regarding the appropriate standard for enhancement of damages under 35 U.S.C. 284 will have significant ramifications for amici and for their industries more generally. Amici have briefed this issue previously, including in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007), the case in which the Federal Circuit articulated the standard that is at issue here. As leaders in American technology before, during, and after *Seagate*, amici submit this brief to provide their perspective on the primary question before this Court.

SUMMARY OF ARGUMENT

Amici and other major technology companies would be adversely affected by a broad, totality-of-the-circumstances inquiry for enhanced damages under 35 U.S.C. 284. By adopting an objective recklessness inquiry for assessment of enhanced damages in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007), the Federal Circuit brought its jurisprudence in line with over a century of precedent that makes clear that enhanced damages are reserved for cases involving willful misconduct. In the vast majority of cases, that standard appropriately balances the need to punish bad-faith infringers against the high potential costs of routine inquiry into facts about defendants' states of mind and privileged legal advice.

That is particularly true in the most common scenario faced by technology companies such as amici, in which a patentee sends a demand letter alleging infringement of a relatively old patent; the company investigates the allegations; and, if the company concludes the allegations lack merit, the patentee sues and alleges willfulness for failing to stop infringement upon receipt of the letter. Under *Seagate*, if a company asserts a reasonable de-

fense to infringement in that situation, the willfulness allegations are rightly eliminated at summary judgment, before the case proceeds to trial.

Congress implicitly condoned the *Seagate* standard when it passed the Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (AIA). In the AIA, Congress referred to the *Seagate* standard with approval; declared that the *Seagate* standard would remain unchanged; and declined to alter the statutory text of Section 284. At the same time, Congress enacted 35 U.S.C. 298, which provides that the failure to obtain an opinion of counsel before undertaking allegedly infringing conduct is *not* probative of willfulness. Section 298 confirms a patentee bears the burden to prove willfulness by the accused infringer and that mere failure to obtain an opinion of counsel is insufficient to make that showing.

Before *Seagate*, a totality-of-the-circumstances standard similar to that advocated by petitioners governed the availability of enhanced damages and resulted in significant problems in the technology industry. At that time, particularly before the Federal Circuit's decision in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH* v. *Dana Corp.*, 383 F.3d 1337 (2004), accused infringers had a "duty of care" that effectively required them to demonstrate their "subjective good faith" by showing that they had obtained opinions of counsel before engaging in infringing conduct. Those opinions were meant to justify an accused infringer's conduct by showing that the patent at issue was invalid or not infringed. But they were costly, lacked probative value, and created thorny problems concerning the attorney-client privilege. By imposing an objective standard, *Seagate* all but eliminated the need for those opinions, addressing the concerns of the

technology industry while at the same time reducing the chilling effects of treble damages on innovation.

Returning to a totality-of-the-circumstances standard would also cause additional harms to the technology industry. The frequency of enhanced damage awards would inevitably increase; "demand letters" and litigation from patentees generally (including non-practicing entities) would also increase; and companies, fearful of the prospect of treble damages, would be forced to divert their research and development funds toward litigation and licensing costs.

While amici share petitioners' concerns that an appropriate standard for willfulness should deter "copying" activities, those concerns are overblown. The existing framework allows patentees to use evidence of copying to uphold the validity of their patents and receive compensatory damages for infringement. And the *Seagate* standard punishes any copying that infringers perform despite an "objectively high likelihood" that the patent was valid and infringed. Cases in which an accused infringer engages in particularly egregious, bad-faith copying with the intent to infringe a patent are exceptionally rare and do not justify a wholesale revision of the existing *Seagate* standard. The benefits of deterring additional copying are low when weighed against the harms associated with a broad, totality-of-the-circumstances standard.

Accordingly, amici support a willfulness framework that maintains *Seagate*'s objective standard but also affords patentees the opportunity to prove, in rare cases involving deliberate copying, that an accused infringer *affirmatively believed* that it was infringing the relevant patent. That framework would address petitioners' "copying" concern in the rare and extreme cases in which it arises, while maintaining, in the mine run of cas-

es, the objective standard necessary to prevent a return to the problematic pre-*Seagate* totality-of-the-circumstances approach. That framework would also be consistent with existing doctrine on both willfulness and punitive damages. This Court should adopt the framework proposed here and affirm the judgments below.

ARGUMENT

I. THE *SEAGATE* STANDARD FOR ENHANCED DAMAGES FUNCTIONS WELL AND HAS BEEN IMPLICITLY ENDORSED BY CONGRESS

Respondents have explained how the standard for enhanced damages under Section 284 articulated by the Federal Circuit in *Seagate* is consistent with the text and history of the statute, as well as with a long line of precedent from both this Court and the courts of appeals. See Pulse Br. 12-39; Zimmer Br. 11-45. Equally importantly, the *Seagate* standard works as a practical matter. In the mine run of cases, including the most common fact pattern faced by technology companies such as amici, the *Seagate* standard appropriately restricts enhanced damages to those cases in which an award of punitive damages is appropriate. And Congress has implicitly approved both the willfulness requirement of Section 284 and the *Seagate* standard for applying it. There is therefore no valid basis for discarding that standard.

A. The *Seagate* Standard Has Worked Well In the Vast Majority Of Cases, Including The Most Common Cases Technology Companies Face

A typical technological product may be alleged to infringe a vast number of different patents. A microprocessor, for example, may use thousands of different patented inventions. See Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev.

1991, 2009 (2007). As a result, companies "cannot realistically * * * identify and evaluate all the possibly relevant patents * * * before starting to develop a new product." William F. Lee & A. Douglas Melamed, *Breaking the Vicious Cycle of Patent Damages*, 101 Cornell L. Rev. (forthcoming 2016) (manuscript at 19) <tinyurl.com/leemelamed>. Even if a company could identify a set of potentially relevant patents, uncertainty about the articulated claims means that "it would still be an expensive and uncertain undertaking to determine which ones genuinely cover a particular product." *Id.* (manuscript at 19-20). And the delay entailed in attempting such an undertaking would hinder the company's ability to bring a technology product to market in "anything close to a commercially reasonable time." *Id.* (manuscript at 21).

Unsurprisingly, therefore, it is all too routine for technology companies to receive "demand letters" from patentees seeking licensing fees. See *Commil USA, LLC* v. *Cisco Systems, Inc.*, 135 S. Ct. 1920, 1930 (2015); Adobe Systems Br. at 23, *Seagate*, *supra*. In response, technology companies typically conduct an investigation into the potential claims. But if a technology company concludes that the infringement allegations lack merit and declines the licensing offer, the patentee may then sue the company and accuse it of willful infringement for failing to stop infringing upon receipt of the demand letter.

In this scenario—a typical scenario in the experience of companies such as amici—the *Seagate* standard works well. Unlike the status quo before *Seagate* or the totality-of-the-circumstances test proposed by petitioners, the *Seagate* approach balances the need to punish bad-faith infringers with the high potential costs of routine inquiry into defendants' states of mind and privileged legal ad-

vice. In particular, under *Seagate*, the defenses to a charge of willfulness are often amenable to summary judgment. The reasonableness of the defense can be evaluated as a question of law without the need for fact-dependent inquiries into the defendant's state of mind; the chronology of what it knew when about the patent; or (in the event of an often-difficult decision to waive the privilege) the advice it received from its lawyers.

Rather, if the company asserts a reasonable defense to infringement, the willfulness allegations are appropriately eliminated before the case proceeds to trial. And if the company lacks a reasonable defense, its decision to proceed with infringement in the absence of such a defense can be punished by Section 284. Either way, an early resolution of the willfulness question helps the parties more accurately to value the case and properly focuses the litigation on the merits of the dispute and on the appropriate compensation for any infringement.

The *Seagate* standard also addresses the messy reality that neither the infringement allegations nor even the specific patent claims being asserted may be clear to the accused infringer at the time of the initial demand letter. Petitioners and the government urge the Court to revert to a pre-*Seagate* standard that focuses on *when* an infringer developed its reasonable defense to an allegation of infringement. See U.S. Br. 29; Stryker Br. 49. But holding infringers to such a standard would frequently be unreasonable. Patentees often continue to prosecute patents even after issuing a demand letter, either because the demand precedes final issuance of the patent or because the patentee has filed a continuation application. Indeed, a patentee can file an application with a broad disclosure; wait until a competitor introduces a successful product; and then file a continuation application and prosecute new claims targeting that product.

See Brian J. Love, *The Misuse of Reasonable Royalty Damages as a Patent Infringement Deterrent*, 74 Mo. L. Rev. 909, 933 (2009). Even if all relevant patents have already issued, moreover, the specific infringement theories to which an accused infringer may be asked to respond may not be clear until well into the litigation, when the patentee issues infringement contentions or responds to contention interrogatories.

For those reasons, the *Seagate* standard is well suited to the complex realities of modern technologies and the patent litigation that surrounds them. Under the *Seagate* standard, willfulness allegations can be evaluated efficiently at the summary-judgment stage based on the reasonableness of the infringer's defenses, without the need for a complicated and expensive inquiry into the infringer's state of mind or the timing of its subjective knowledge.

B. The *Seagate* Standard Is Consistent With Congress's Intent To Shield Objectively Reasonable Conduct From Assertions Of Willfulness

In enacting the America Invents Act in 2011, Congress demonstrated that it was satisfied with the *Seagate* standard for enhanced damages in at least two important ways. *First*, Congress enacted Section 298, which expressly states that the failure of an infringer to obtain or present evidence of a legal opinion concerning an allegedly infringed patent may not be used to prove willfulness. *Second*, Congress left Section 284 unchanged.

1. Section 298 of the Patent Code states that "[t]he failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury, may not be used to prove that the accused infringer willfully infringed the patent." 35 U.S.C. 298. Two criti-

cal components of Section 298 bear on Congress's understanding of Section 284.

First, Section 298 expressly refers to proving "willful[] infringe[ment]." No other provision of the Patent Code refers directly to willful infringement; in light of the settled understanding that Section 284 is directed toward "willful infringement," see pp. 27-28, *infra*, Section 284 is the only possible provision to which the reference to "willful infringement" in Section 298 could possibly pertain. Were it otherwise, the reference to "willful infringement" would serve no purpose. Section 298 thus confirms that Congress understood, and intended to reaffirm, that Section 284 requires willfulness for enhanced damages.

Second, Section 298 demonstrates Congress's preference for an objective standard in determining willfulness in an ordinary case. Under Section 298, a patentee cannot prove willful infringement based on the failure of an accused infringer to "obtain" advice of counsel or to "present" validity or non-infringement opinions of such counsel. 35 U.S.C. 298. In adopting that rule, Congress made clear that advice of counsel—which had long been used as evidence of an infringer's subjective good or bad faith before *Seagate*—should not be a necessary component of the willfulness inquiry.

In the debates on the AIA, members of Congress noted that an accused infringer's efforts to obtain such opinions, and the opinions themselves, lacked probative value. One of the AIA's sponsors stated on the Senate floor that Section 298 reflected "legislative skepticism of such opinions" when they were produced by accused infringers. 157 Cong. Rec. 3427 (2011) (statement of Sen. Kyl). Given that the "probative value of this type of evidence is outweighed by the harm that coercing a waiver of attorney-client privilege inflicts on the attorney-client

relationship," Congress made the "policy choice" to discount such evidence and to "reduce pressure on accused infringers to obtain opinions of counsel for litigation purposes." H. Rep. No. 98, 112th Cong., 1st Sess. 53 (2011).

2. In addition, Congress's express prohibition on punishing accused infringers for their failure to obtain an opinion of counsel fatally undermines the contentions of petitioners and the government that infringement may be considered willful if the accused infringer does not know of an objectively reasonable defense "at the time of the infringing conduct." U.S. Br. 29 (emphasis omitted); see Stryker Br. 49. That approach would punish an accused infringer that sought legal advice and developed an objectively reasonable but ultimately unavailing defense during litigation. But it would insulate an accused infringer that secures exactly the same legal advice and becomes aware of exactly the same legal defense at the time of the alleged infringement.

In *Seagate*, the Federal Circuit eliminated the affirmative duty of due care, thereby removing any doubt as to whether an accused infringer needed to procure exculpatory opinions before suit in order to avoid a finding of willfulness. See pp. 16-17, *infra*. But if the availability of enhanced damages turns on *when* an infringer develops an objectively reasonable defense, not merely on whether that defense is indeed objectively reasonable, accused infringers will routinely be forced to commission opinion letters, waive the attorney-client privilege, and produce those letters. That is because, as a practical matter, accused infringers would only be certain to have become aware of objectively reasonable defenses by procuring an opinion of counsel; developing a reasonable invalidity or non-infringement position typically requires legal analysis, especially because the proper construction of a patent claim is ultimately a question of law. If the

willfulness inquiry hinged on whether the accused infringer possessed an objectively reasonable defense "at the time of the infringement," as petitioners and the government contend, the infringer's opinion of counsel or its absence would be at issue in virtually every case, and accused infringers that did not procure or disclose an opinion would be disadvantaged. That is precisely what Section 298 forbids.

By contrast, the objective prong of the *Seagate* standard looks to *whether* an accused infringer's defenses were sufficiently reasonable, rather than *when* they were formulated. The reasonableness of the infringer's conduct is still evaluated, and infringers that recklessly infringe in the absence of an "objectively reasonable position," as Stryker puts it, are rightly punished. But consistent with Section 298, the inquiry should focus on the objective reasonableness of the defendant's position—not on whether it was opinion counsel contemporaneous with the conduct, rather than trial counsel sometime later, who first articulated that position.

3. At the same time it enacted Section 298, Congress left Section 284 undisturbed. That decision confirms that Congress intended to preserve the existing *Seagate* standard for willfulness in typical cases. Congress was well aware of *Seagate* when it debated and negotiated the AIA. See, *e.g.*, H. Rep. No. 98, *supra*, at 39 & n.9 (noting that *Seagate* was "respons[ive]" to "concerns" of the Supreme Court and others). And in considering patent-reform bills prior to the AIA, Congress expressed its support for *Seagate*, noting that it "view[ed] this decision as a positive development." S. Rep. No. 18, 111th Cong., 1st Sess. 12 (2009). Thus, it is unsurprising that the bill that became the AIA did not disturb substantive damages law and, in particular, "ma[de] no changes to the standard for awards of treble damages." 157 Cong.

Rec. 3427 (2011) (statement of Sen. Kyl). That approach makes sense, given that Congress generally sought to "create[] an environment where the most economically reasonable option for a party confronted with a *strong patent* is to take a license." *Ibid.* (emphasis added). Congress was not primarily concerned with deterring the infringement of weak patents.

If Congress had desired a wholesale revision of the *Seagate* standard, much less a return to a more expansive totality-of-the-circumstances standard, it certainly could have made such a change to Section 284 when it passed the AIA. But instead, Congress chose to retain, and even reinforce, the existing *Seagate* standard. There is no valid evidence that Congress intended to disturb the objective standard for willfulness at the heart of the Federal Circuit's decision in *Seagate*.

II. A MORE 'FLEXIBLE' STANDARD UNDER SECTION 284 WOULD REOPEN THE PROBLEMS THAT EXISTED BEFORE *SEAGATE*, EXPAND COSTLY LITIGATION, AND UNDERMINE INNOVATION

Petitioners propose a flexible, "totality of the circumstances" standard for awarding enhanced damages under Section 284, much like the standard that governed willfulness in the Federal Circuit before that court's decision in *Seagate*. See Halo Br. 10, 25, 27; Stryker Br. 14. But such a flexible and ambiguous standard for treble damages would lead to a string of problems. Indeed, the Federal Circuit adopted the bright-line standard of *Seagate* precisely because of problems associated with the prior totality-of the-circumstances-approach. From their perspective both as plaintiffs and as defendants in patent-infringement cases, amici urge the Court not to send litigants back down that harmful path.

A. The Federal Circuit Adopted The *Seagate* Standard Because The Preexisting Totality-Of-The-Circumstances Standard Was Unworkable

1. The *Seagate* standard arose out of a context in which a more flexible standard for imposing enhanced damages under Section 284 had become untenable. As the government acknowledges in its amicus brief here, *Seagate* was "motivated in large part by a justifiable concern" that district courts (and therefore juries) had been given too much discretion to impose enhanced damages. U.S. Br. 22.

In fact, the standard for enhanced damages that preceded *Seagate* in the Federal Circuit was broadly the standard that petitioners are advancing here: *i.e.*, a standard assessing willfulness "in the totality of the circumstances presented in th[e] case." *Underwater Devices, Inc.* v. *Morrison-Knudsen Co.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983). As applied by the Federal Circuit, that standard required accused infringers to "seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity," in order to demonstrate their subjective good faith. *Ibid.* An opinion of counsel was considered crucial to the willfulness analysis. *Ibid.* And an adverse inference was applied against an infringer that failed to obtain an opinion: namely, an inference that the infringer "either obtained no advice from counsel[,] or did so and was advised that its [activities] would be an infringement of valid U.S. patents." *Kloster Speedsteel AB* v. *Crucible, Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986).

Efforts to obtain legal opinions before suit not only were expensive for companies such as amici, but also created extensive issues concerning the waiver of the attorney-client privilege when they were disclosed during litigation. An accused infringer was frequently forced to

make a Hobson's choice either to disclose an attorney opinion supporting the infringer's subjective good faith (and thereby waive the privilege) or to receive an adverse inference on the willfulness question.

Eventually, the Federal Circuit eliminated the adverse inference associated with an accused infringer's failure to obtain opinions of counsel, but the court declined to disturb the broader principle that, under the totality-of-the-circumstances standard, the infringer bore an affirmative duty of due care. See *Knorr-Bremse*, 383 F.3d at 1344-1346. Thus, even after *Knorr-Bremse*, it was understood that "an opinion of counsel w[ould] often remain the only realistic way for a defendant to meet its affirmative duty," with the result that "many of the pre-*Knorr-Bremse* problems * * * persist[ed]." William F. Lee et al., *The Doctrine of Willful Patent Infringement after* Knorr-Bremse: *Practical Problems & Recommendations*, 7 Sedona Conf. J. 169, 177 (2006). At least one judge expressed concern that, even without the adverse inference, the totality-of-the-circumstances standard would lead to the "imposition of substantial legal costs on companies seeking to introduce innovative products" and an "enhanced ability of holders of dubious patents to force competitors' products off of the market through the threat of enhanced damages." *Knorr-Bremse*, 383 F.3d at 1341 (Dyk, J., concurring in part and dissenting in part). Around the same time, the Federal Circuit exacerbated the problem with the waiver of the attorney-client privilege by extending the waiver to "any attorney-client communications relating to the same subject matter," regardless of whether it involved the counsel that prepared the opinion. *In re Echostar Communications Corp.*, 448 F.3d 1294, 1299 (2006).

Thus, in the lead-up to *Seagate*, the Hobson's choice remained, and technology companies and other frequent

targets of litigation were forced to shoulder substantial expenses in ordinary cases while simultaneously grappling with the possibility that they would have to waive the privilege over broad swaths of attorney-client communications.

2. The burdens associated with the totality-of-the circumstances standard were troubling to the technology community at large. More than twenty amicus briefs were filed before the Federal Circuit in *Seagate*, and many of them lamented the aforementioned problems with that standard. As Intel explained in a brief filed with several other technology companies, the existing standard "compel[led] companies, including *Amici*, to expend substantial resources—*e.g.*, to obtain legal opinions for the sole purpose of defending against charges of willful infringement—much of which could be used instead to foster innovation." Adobe Systems Br. at 6, *Seagate*, *supra*. In the words of the FTC, the pre-*Seagate* "willfulness doctrine drew few defenders." Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, ch. 5, at 29 (Oct. 2003) <tinyurl.com/ftcinnovationreport> (FTC Study). Given those problems, multiple amici urged that a failure to obtain opinions of counsel should not be admissible to prove willfulness, lest "[p]atentees effectively re-impose the [adverse inference] through attorney argument that the totality of circumstances warrants a finding of willfulness." Echostar Communications Br. at 9, *Seagate*, *supra*.

In *Seagate*, the Federal Circuit recognized that its prior standard was a failed experiment, and it addressed the widespread concerns with that standard by adopting its objective standard for willfulness under Section 284. The court eliminated the accused infringer's affirmative duty of due care and held that "there is no affirmative

obligation to obtain opinion of counsel" to defend against willfulness allegations. 497 F.3d at 1371. Among other things, the court recognized that the attorney opinions were of minimal probative value, and highlighted the privilege and work-product issues that plagued their use in litigation. *Id.* at 1369-1370.

3. Adopting the totality-of-the-circumstances standard advanced by petitioners here would return infringement litigation to the pre-*Seagate* era of a subjective standard for enhanced damages and would reopen the Pandora's box of problems that existed under the Federal Circuit's prior rule.

As discussed above, petitioners and the government argue for a totality-of-the-circumstances standard that focuses on *when* an accused infringer developed its reasonable defense to an allegation of infringement. See U.S. Br. 29; Stryker Br. 49. But neither petitioners nor the government explain how reasonableness at the time of the disputed conduct would be proven. And just as the affirmative duty of due care had effectively required an infringer to demonstrate that it had procured an exculpatory, pre-infringement opinion of counsel, a standard focusing on whether the infringer adopted a reasonable position based on the facts and circumstances known at the time of the infringing conduct would once again effectively require opinions of counsel before suit. The only practical way for an infringer to show that it had adopted an objectively reasonable position before litigation would be to provide evidence that it obtained such an opinion. Petitioners' approach would thus trigger the same problems that animated the Federal Circuit's adoption of the *Seagate* standard in the first place.

B. Returning To A Totality-Of-The-Circumstances Standard Would Harm Innovation And Expand Costly Litigation

1. Returning to a totality-of-the-circumstances approach such as that advanced by petitioners would have serious effects on innovation in the technology industry. The frequency of enhanced damages awards under Section 284 would inevitably increase—likely dramatically—under such a malleable standard.

The aftermath of *Octane Fitness, LLC* v. *ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014), in which this Court adopted a flexible standard for attorneys' fees under 35 U.S.C. 285, is illustrative. In the short time since that decision, the rate of successful attorney fee petitions has risen to as high as 50% in early 2015—up from a rate of only 13% in the year before *Octane*. See Bloomberg Law, *Debate on Patent Reform Legislation Continues in Congress* (Aug. 12, 2015) <tinyurl.com/bloombergdebate>. A relaxed standard for willfulness under Section 284 would likely trigger a similar increase in the rate of willfulness determinations.

Indeed, whereas rates of willfulness findings under the current standard have been estimated to be around 37%, rates of willfulness findings under the pre-*Seagate* totality-of-the-circumstances approaches were estimated to be as high as 64%. See Christopher B. Seaman, *Willful Patent Infringement and Enhanced Damages After In Re Seagate: An Empirical Study*, 97 Iowa L. Rev. 417, 444 (2012) (Seaman). Such a trend would be particularly troubling because willfulness is alleged in approximately 80% to 90% of all patent cases. See Kimberly A. Moore, *Empirical Statistics on Willful Patent Infringement*, 14 Fed. Cir. B.J. 227, 232 (2004); Christopher A. Cotropia & Mark A. Lemley, *Copying in Patent Law*, 87 N.C. L. Rev. 1421, 1440-1442 (2009) (Cotropia).

Such an increase in the frequency of enhanced damages awards would lead to a significant increase in the cost of developing and marketing technologically advanced products. Under Section 284, damages may be up to *three times* the amount of a compensatory infringement award. Such damages dwarf fee awards under Section 285 and can produce "a disproportionately large *in terrorem* effect," causing potentially accused infringers to choose to reserve funds for litigation or licensing fees at the expense of their research and development budgets. See FTC Study, ch. 5, at 30. As this Court recognized in *Octane Fitness*, the "threat of * * * treble damages" creates a much larger chilling effect on conduct "than does the mere shifting of attorney's fees." 134 S. Ct. at 1757. The threat of treble damages would also force many more, and more costly, settlements for innovators. The overwhelming percentage of patent cases settle before trial, and the mere threat of treble damages would cause technology companies to pay larger settlements at the expense of research and development.

The threat of increased damages awards, standing alone, would hamper innovation by companies such as amici. "When infringers are also innovators, the inflated damage awards they pay will reduce returns from their own [research and development] efforts, which can decrease innovation. Inflated awards can also drive higher licensing fees that increase costs and decrease innovation." Federal Trade Commission, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* 146 (Mar. 2011) <tinyurl.com/ftcremediesreport> (FTC Report).

2. Litigation under a more flexible willfulness standard would also be problematic because it would accelerate licensing demands. With the threat of enhanced

damages under a flexible and ambiguous standard, companies such as amici would be left with one of two choices when faced with a lawsuit: pay for a license, or choose to face the unpredictable risks and costs of litigation.

As discussed above, the receipt of demand letters is a routine event for companies such as amici. Under the current *Seagate* standard, technology companies frequently determine that the infringement allegations in the letters lack merit and reject those demands, and thus often conclude that the likelihood of paying enhanced damages is low. But as the Federal Trade Commission has explained, "[a]s the risk of paying an inflated award increases, would-be innovators will tend to enter into licenses rather than challenge claims that may be weak, perhaps paying unnecessary royalties." FTC Report 146. A more amorphous, less objective standard also increases the unpredictability of this calculus, because it heightens the risk that the question of enhanced damages would reach a jury and would do so under a standard giving jurors wide discretion.

A totality-of-the-circumstances standard would increase such risks to technology companies such as amici, encouraging them to take licenses even where the patentee asserts a patent of questionable validity. As this Court has explained, such scenarios "can impose a harmful tax on innovation." *Commil*, 135 S. Ct. at 1930 (internal quotation marks omitted). Accused infringers will be more likely to incur that tax as a "cost of doing business" if they cannot predictably determine that they could defeat a willfulness charge on the ground that the patent's validity is objectively questionable.

3. Another inevitable and troubling consequence of a flexible willfulness standard would be increased forum shopping. The more flexible the willfulness standard is, and the more deference given to the district courts in de-

termining willfulness, the more likely infringement plaintiffs would abuse the patent system by shopping for the forums where it is particularly difficult to obtain a dispositive ruling eliminating enhanced damages claims before trial. At least one study has shown that certain judicial districts make willfulness findings at a much higher rate than others. See Seaman 450-451. This Court should reject petitioners' totality-of-the-circumstances approach, which would revive the numerous problems associated with the failed pre-*Seagate* standard.

III. PETITIONERS' CONCERNS ABOUT COPYING DO NOT WARRANT A MORE 'FLEXIBLE' STANDARD BUT CAN INSTEAD BE ADDRESSED BY SLIGHTLY MODIFYING THE *SEAGATE* STANDARD

Throughout their briefs, petitioners assert that a broad willfulness standard is necessary to deter malicious efforts to copy a patentee's invention. As leading technology-based companies with substantial patent portfolios, amici are naturally also concerned about malicious copying. A key reason to enhance damages for willful infringement is to deter such copying. But the *Seagate* standard is sufficient to do so in the mine run of cases.

In those rare cases in which a patentee can furnish subjective proof that an accused infringer deliberately copied a patented product and *affirmatively believed* that it was infringing the patent, enhanced damages should apply as well, and the *Seagate* standard can be modified to ensure that it reaches those cases. Such a modification would be consistent with this Court's precedents governing other punitive-damages statutes. This Court should not discard the *Seagate* standard, which has worked well in the vast majority of cases, but instead

need only slightly modify it in order to address petitioners' copying concerns.

A. Petitioners' Concerns About Copying Are Overstated

1. The key drivers of innovation in today's economy are private firms such as amici that develop and patent novel technologies. Those firms are routinely haled into court as patent-infringement defendants. Accordingly, any benefits to innovation from an effort to reduce copying must be balanced against the costs that those same efforts impose on innovators. As discussed above, petitioners' policy arguments wholly ignore those costs. But petitioners also significantly overstate the benefits of, and the need for, strengthening the punishments for what they call "copying."

In fact, copying is not the significant problem that petitioners make it out to be. As an initial matter, mere copying is neither an act of infringement nor a policy evil to be deterred. As the government observes, copying can be socially beneficial and should be encouraged—for example, when an accused infringer has attempted to design around a patented product. See U.S. Br. 19 n.16. Perhaps for that reason, petitioners' arguments about copying focus on the scenario in which an infringer has not only based its accused product on a competitor's, but done so with full knowledge that in so doing it is infringing the competitor's patent.

That scenario, however, is a rare one. To begin with, of course, many patentees do not practice their inventions at all; in those cases, there is no product to copy. And although "the rhetoric of patent law * * * often seems to presuppose that defendants in patent cases are in fact engaged in copying," "overwhelmingly, they are not." Cotropia 1423, 1424. A 2009 study found that only about 10.9% of cases allege copying and that copying was

proven only in 1.76% of cases, making copying "the exception, not the rule," in patent cases more generally. *Id.* at 1424. Such rare cases should not drive wholesale revisions to the Federal Circuit's existing standard, which is otherwise workable and consistent with congressional intent.

There is no reason to believe that the rare case in which infringers have deliberately copied a patented product is inadequately deterred by the existing standard. Without any empirical support, petitioners suggest that the *Seagate* standard "result[s] in severe underdeterrence of culpable infringement." Stryker Br. 51-52. And they argue that "[t]he Federal Circuit has created a situation in which patent holders will almost never receive enhanced damages." Halo Br. 28. Those arguments are demonstrably invalid. Litigation statistics compiled in the three years after *Seagate* show that willfulness was found in 37.2% of the cases in which it was raised—down from a rate of 48.2% in the three years immediately before *Seagate*. Seaman 441. Those statistics also confirm that, "[w]hen a patentee offered evidence of copying by the accused infringer" in post-*Seagate* cases, "willfulness was found almost two-thirds (63.3 percent) of the time." *Id.* at 458. Thus, the *Seagate* standard has not caused a "severe" decrease in willfulness findings, nor has it prevented enhanced damages in cases involving copying.

2. In addition, the law already deters copying in numerous ways. To begin with, under the *Seagate* standard, every patentee whose patent is infringed by a purported "copyist" will necessarily receive compensatory damages, just not necessarily punitive damages. Those compensatory damages awards, of course, can run into the hundreds of millions of dollars. See Ryan Davis, IP Law 360, *Top IP Verdicts of 2014—And the Firms*

that Won Them <tinyurl.com/topipverdicts>. The risk of such large damage awards, even without further enhancement, deters companies such as amici from copying other companies' products. And the substantial litigation costs of any infringement case provides a further deterrent effect: for example, in cases in which more than $25 million is at stake, the median legal costs are around $5 million. See Jim Kerstetter, CNet, *How Much is that Patent Lawsuit Going to Cost You?* <tinyurl.com/patentcosts>. Indeed, the risks of substantial damages awards, and the concomitant costs of litigation, are so high that a substantial relaxing of the *Seagate* standard is likely to force innocent non-copyists to enter into unjustified settlements.

Beyond triggering compensatory damages, copying may also be a contributing factor to the imposition of liability for infringement in the first place. To be sure, a defendant that deliberately copied a patented product is especially likely to be found to infringe. But in addition, copying is expressly recognized by the Federal Circuit as a secondary consideration that can demonstrate nonobviousness and thus salvage the patentability of a patent that otherwise would have been held invalid. See, *e.g.*, *Circuit Check Inc.* v. *QXQ Inc.*, 795 F.3d 1331, 1337 (Fed. Cir. 2015); *Advanced Display Systems, Inc.* v. *Kent State University*, 212 F.3d 1272, 1285 (Fed. Cir. 2000). Indeed, in one of these cases, the district court recognized that it was "dramatically less likely that [defendant's] invalidity arguments were reasonable" in view of, among other things, its finding that plaintiff's invention was "copied by others, including [plaintiff's] two leading competitors." *Stryker Corp.* v. *Zimmer, Inc.*, Civ. No. 10-1223, 2013 WL 6231533, at *13 (W.D. Mich. Aug. 7, 2013). And in the other, evidence that "support[ed] an inference of copying" "weigh[ed] in favor of

nonobviousness." *Halo Electronics, Inc.* v. *Pulse Electronics, Inc.* Civ. No. 07-331, 2013 WL 2319145, at *6 (D. Nev. May 28, 2013). Regardless of whether it triggers enhanced damages, therefore, patent law attaches significant consequences to copying.

B. A Slight Modification To The *Seagate* Standard Can Adequately Address Any Remaining Concerns About Copying

Given those realities, a wholesale revision of the Section 284 standard is not necessary to deter copying. In most cases, "copying" is appropriately addressed simply by the *Seagate* standard for enhanced damages. The objective prong of that standard serves a gatekeeping function by ensuring that high-quality patents (*i.e.*, patents that have an objectively high likelihood of being valid and infringed) trigger enhanced damages, consistent with the goals of the patent system. And with respect to such high-quality patents, evidence of copying is still relevant under the subjective prong of the standard to show that the accused infringer "knew" of the objectively high likelihood of infringement. Thus, an infringer that copies a high-quality patent is already likely to be subject to enhanced damages under Section 284.

To the extent that the *Seagate* standard does not adequately deter copying, this Court may wish to recognize that enhanced damages are also available in cases in which the patentee furnishes subjective proof that an accused infringer deliberately copied a patented product and *affirmatively believed* that it was infringing the patent. Such a standard could apply in the rare circumstances in which the accused infringer infringed despite an active belief that it did not have a viable defense to infringement, even if it turned out that it did. And such a standard would ensure that an after-the-fact, *post hoc* defense to infringement would not defeat a finding of

willfulness in all cases, particularly in cases in which the accused infringer has engaged in egregious conduct.

Such a narrow modification of the *Seagate* standard, while addressing petitioners' concerns about extraordinary cases, would retain the virtues of the *Seagate* standard and minimize the risk of an explosion of willfulness findings in the district courts. And, as discussed below, it would be congruent with this Court's precedents.

C. The Modified *Seagate* Standard Is Consistent With Case Law Confirming That Section 284 Is A Punitive Statute That Requires Proof Of Objectively Reckless Conduct

The standard proposed here, though addressing petitioners' concern with deliberately infringing copying, maintains a high bar for enhanced damages. That standard is appropriate in view of this Court's precedents for several reasons.

1. Section 284 Is A Punitive Statute

Since the nineteenth century, this Court has reiterated time and again that Section 284 is a punitive statute. This Court characterized the predecessor to Section 284 as imposing "punitive damages to the extent of trebling the verdict." *Root* v. *Railway Co.*, 105 U.S. 189, 196 (1881). And the Court explained that punitive damages in this context should be viewed as "vindictive or exemplary damages, not to recompense the plaintiff, but to punish the defendant" for conduct that is "wanton or malicious." *Seymour* v. *McCormick*, 57 U.S. 480, 489 (1853). The Court has hewed to that characterization of Section 284 in more recent decisions. See *Exxon Shipping Co.* v. *Baker*, 554 U.S. 471, 507 (2008).

By contrast, Section 285—the fee statute addressed in *Octane Fitness, LLC* v. *ICON Health & Fitness, Inc.*,

134 S. Ct. 1749 (2014)—is unquestionably a compensatory statute. See *Highmark, Inc.* v. *Allcare Health Management System, Inc.*, 701 F.3d 1351, 1355 (Fed. Cir. 2012); *Mathis* v. *Spears*, 857 F.2d 749, 753 (Fed. Cir. 1988). For that reason alone, the Court's analysis in *Octane Fitness* is irrelevant to its interpretation of Section 284.

2. Section 284 Requires Willful Conduct

The standard advanced here appropriate for yet another reason. Again since the nineteenth century, this Court has made clear that enhanced damages for patent infringement are reserved for "wanton or malicious"—*i.e.*, "willful"—conduct. *Seymour*, 57 U.S. at 489; see *Safeco Insurance Co. of America* v. *Burr*, 551 U.S. 47, 57 (2007) (noting that, "'[a]lthough efforts have been made to distinguish' the terms 'willful,' 'wanton,' and 'reckless,' 'such distinctions have consistently been ignored, and the three terms have been treated as meaning the same thing, or at least as coming out at the same legal exit'" (quoting W. Page Keeton et al., *Prosser & Keeton on Law of Torts* § 34, at 212 (5th ed. 1984)).

Both before and after the passage of the 1952 Patent Act, this Court and lower courts alike have noted that Section 284 is aimed at punishing "willful" conduct. See, *e.g.*, *Dowling* v. *United States*, 473 U.S. 207, 227 n.19 (1985); *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964); *Beatrice Foods Co.* v. *New England Printing & Lithographing Co.*, 923 F.2d 1576, 1578 (Fed. Cir. 1991); *Wilden Pump & Engineering Co.* v. *Pressed & Welded Products Co.*, 655 F.2d 984, 988-990 (9th Cir. 1981); *Union Carbide Corp.* v. *Graver Tank & Manufacturing Co.*, 282 F.2d 653, 675 (7th Cir. 1960); *Power Specialty Co.* v. *Connecticut Light & Power Co.*, 80 F.2d 874, 878 (2d Cir. 1936); *Baseball*

Display Co. v. *Star Ballplayer Co.*, 35 F.2d 1, 4 (3d Cir. 1929); *W.S. Godwin Co.* v. *International Steel Tie Co.*, 29 F.2d 476, 478 (6th Cir. 1928).

While willfulness is a longstanding requirement of Section 284, it has never been viewed as a requirement of Section 285, which was enacted more than 100 years after the enhanced-damages provision was first enacted in 1846. Unsurprisingly, then, *Octane Fitness*, "which does not address the term 'willful' at all," has no bearing on this case. 14-1513 Pet. App. 145a (Taranto, J., concurring in the denial of rehearing en banc).

3. *The Modified* Seagate *Standard Is Consistent With The Standards Applied Under Other Punitive Federal Statutes*

In numerous contexts, this Court has held that proof of either malicious or reckless conduct is a minimum requirement of punitive statutes. For example, under Title VII, punitive damages are reserved for cases of "intentional discrimination" that has been committed "'with malice or with reckless indifference to the federal protected rights of an aggrieved individual." *Kolstad* v. *American Dental Association*, 527 U.S. 526, 529-530 (1999) (quoting 42 U.S.C. 1981a(b)(1)). Likewise, under maritime law, the Court has explained that "[t]he prevailing rule" reserves punitive damages for "outrageous" conduct, including "'gross negligence,' 'willful, wanton, and reckless indifference for the rights of others,' or behavior even more deplorable." *Exxon Shipping*, 128 S. Ct. at 2621 (citation omitted). And in Section 1983 actions, punitive damages are available only when there is, at minimum, "reckless or callous disregard for the plaintiff's rights," or an "intentional violation[] of federal law." *Smith* v. *Wade*, 461 U.S. 30, 51 (1983). And, in defamation cases, this Court permits recovery of punitive dam-

ages only upon a showing of "knowledge of falsity or reckless disregard for the truth." *Gertz* v. *Robert Welch, Inc.*, 418 U.S. 323, 349 (1974).

The *Seagate* standard comports with those standards in the typical case in which proof of deliberate copying and infringement is absent. Consistent with this Court's traditional interpretations of punitive statutes, under the *Seagate* standard, Section 284 requires, at a minimum, a showing of "recklessness" to trigger treble damages. See *Safeco Insurance*, 551 U.S. at 57, 70 n.20 (rejecting proposition that "subjective bad faith can support a willfulness finding even when [a] company's reading of [a] statute is objectively reasonable").

This Court's precedents, however, also suggest that a tortfeasor may be punished for engaging in conduct that was affirmatively calculated to cause harm to the defendant. See, *e.g.*, *Exxon Shipping*, 128 S. Ct. at 2621; *Kolstad*, 527 U.S. at 529-530; *Smith*, 461 U.S. at 51; *Gertz*, 418 U.S. at 349. The narrow modification of *Seagate* proposed here addresses the situation where the evidence demonstrates that an accused infringer violated the patentee's rights deliberately: that is, by copying a patented product with an affirmative belief that doing so would be an act of infringement. Under those circumstances, it is appropriate to forgo an inquiry into whether the infringer had an objectively reasonable defense, because the infringer's conduct was "willful" in the most literal sense: it knew that it was deliberately co-opting a competitor's technology and believed that doing so would infringe the competitor's patent, yet committed the tort of patent infringement anyway.

Such a standard, however, should focus on whether the copying was a deliberate act of infringement, not on other aspects of the infringer's state of mind. Petitioners and the government propose a looser standard in which a

jury could award treble damages based *solely* on the defendant's having copied a patented product. But knowledge of copying is unquestionably not the same as belief of infringement, as petitioners implicitly concede when they suggest that the existence of an objectively reasonable defense can still preclude a finding of willfulness as long as the infringer knew of that defense at the time of its conduct. See, *e.g.*, Stryker Br. 49.

At the same time, when an infringer has advanced an objectively reasonable defense, enhanced damages under Section 284 should be available only in the rare circumstance in which the infringer not only is knowingly infringing, but has deliberately copied a patented technology. In the typical case in which an infringer learns of an allegation of infringement from a demand letter it receives about an existing product, *Seagate*'s objective prong should be dispositive. That is because such an infringer cannot be said to have violated the patentee's rights "with malice." *Kolstad*, 527 U.S. at 529-530. Rather, the salient question is whether such an infringer acted "with reckless indifference to the federal protected rights" of the patentee, see *ibid.*, by continuing to infringe despite the nonexistence of any objectively reasonable defense. That question is answered by the objective prong of the Federal Circuit's existing standard.

This narrow modification of the *Seagate* standard would address petitioners' concerns with copying, yet would largely avoid the problems inherent in the pre-*Seagate* totality-of-the-circumstances standard. In most cases, the presence of an objectively reasonable defense would suffice to insulate accused infringers from routine allegations of willfulness. Unlike petitioners' proposed standard, the standard advanced here will not lead to free-ranging allegations about—or discovery into—the infringer's state of mind, because the standard will re-

main an objective one in the common case in which the patentee cannot plausibly allege that the infringer knew of the patent (and deliberately copied it) when designing the infringing product. But in the rare case in which a defendant deliberately copied a patentee's product and there is affirmative evidence that it did so despite an affirmative belief that it was infringing, willfulness could be proved directly from evidence of the infringer's subjective knowledge. Truly "malicious" or "wanton" conduct could thus be punished, consistent with other punitive-damages statutes, notwithstanding the *post hoc* assertion of an objectively reasonable defense. See *Exxon Shipping*, 128 S. Ct. at 2621; *Kolstad*, 527 U.S. at 529-530.

In short, to address the rare case in which a defendant maliciously copies a product despite an affirmative belief that it does not have a viable defense to infringement, this Court need not dismantle the *Seagate* standard, which has worked well in the vast majority of cases (including the most common cases technology companies face). In these cases, the Court should reaffirm the core of the *Seagate* standard and, in the absence of sufficient evidence that respondents here affirmatively believed they were infringing the patents in suit, affirm the judgments below.

CONCLUSION

The judgments of the court of appeals should be affirmed.

Respectfully submitted.

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JANUARY 2016